

Editorial

How Really Unique Are Emerging Markets and Their Firms?

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Emerging markets (EMs) have become a focal point of academic inquiry and policy interest as they complement and sometimes even challenge established paradigms based on developed economies. International Business scholars, practitioners, and policymakers have long debated how unique emerging markets and their firms are, and if this uniqueness warrants or requires special attention, distinct policies, and new theories. Developed in cooperation with the AIB Emerging Markets Special Interest Group, this *AIB Insights* special issue explores these questions, articulating novel and actionable insights to understand EMs' distinctiveness. Our introductory editorial to this issue briefly discusses the nature and dimensions of the uniqueness of emerging markets and their firms. It then surveys the seven issue articles, highlighting their main findings and insights. Given current global developments, the significance of EMs and their firms is likely to grow further, underscoring the importance of continued academic and practical focus on them.

INTRODUCTION

Emerging markets (EMs) have become a focal point of academic inquiry and policy interest as they complement, and sometimes even challenge, paradigms established by research on developed economies. The distinctive characteristics of these markets—for instance, high growth potential, institutional voids, the evolving political landscape, and rapid socio-economic transformations—shape the environment in which firms operate and their strategic choices. There is an ongoing debate among International Business (IB) scholars, practitioners, and policymakers on how unique EMs and their firms are, and if this uniqueness warrants or requires special attention, distinct policies, and new theories. The arguments for the uniqueness of EMs are often grounded in their country contexts, i.e., economic and institutional differences that affect how businesses operate and investments perform in these markets (Kumar, Mudambi, & Gray, 2013). EMs frequently face governance-related challenges, such as political instability, corruption, and policy uncertainty, which can profoundly affect economic performance, trade, and investment activities (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017).

However, EMs include a large group of countries which defy a uniform narrative. The absence of an agreed-upon formal definition of EMs allows for vague and shifting boundaries between mature and emerging markets, based on ambiguous attributes such as income levels, sustained market access, and global economic relevance. The distinctions between EMs and mature markets may not always be salient, depending on the markets and characteristics being compared. We also observe increasing convergence among

many of these markets, although meaningful differences remain between most emerging and most developed markets, as well as between emerging markets in different regions. Thus, important questions about EMs' uniqueness remain: How truly unique are EMs as a group? Why do we need to consider these differences? What impact do EMs' key characteristics have on IB theories and practice? This special issue, developed in cooperation with the Academy of International Business (AIB) Emerging Markets Special Interest Group, explores these questions, providing an understanding of EMs' and their firms' distinctiveness, while also developing actionable insights for business practitioners and policymakers.

WHAT ARE EMs?

As the name indicates, EMs are countries that emerge and transition from one status to another, i.e., from a developing to developed status. This transition is characterized by (rapid) industrialization, increasing integration into the global economy, and improving living standards. These countries are emerging from historically agrarian-based or resource-dependent economies toward more diversified and modern economic structures (Narula, 2018), which are, for example, driven by urbanization, technological adoption, innovation, and foreign investment. These markets also emerge from political and economic reforms that promote stability, liberalization, and growth.

Thus, one of the defining features of EMs is their transitioning institutional environment, from weaker regulations, less mature legal systems, and evolving governance practices, compared to mature, developed markets (Peng,

2001), to stronger systems. EMs' institutional contexts start out to be fraught with uncertainties that compel firms to build and engage (dynamic) capabilities to develop and perform adaptive strategies (Cuervo-Cazurra, Newburry, & Park, 2020). Firms under these conditions must learn how to navigate regulatory ambiguities by developing robust systems that compensate for institutional deficiencies. Rapid innovation and flexible management practices are needed in these environments, albeit amidst heightened political and economic volatility. Furthermore, institutional voids (Khanna & Palepu, 1997) exemplify the absence or the inadequacy of specialized intermediaries, regulatory systems, and contract-enforcing mechanisms, with firms often taking on roles traditionally filled by formal institutions in developed economies. This self-reliance encourages innovation, where firms experiment with new business models, product innovations, and even novel forms of corporate governance (Mair & Marti, 2009; Zhou & Li, 2010). This adaptability can result in a competitive advantage in highly dynamic international arenas, where traditional firms from developed markets may find it challenging to compete.

Partly driven by institutional idiosyncrasies, another characteristic of EMs is the importance of social relationships and networks that play a crucial role in facilitating business transactions and accessing resources (Li, Poppo, & Zhou, 2008). Firms that build and maintain strong social relationships with key stakeholders, such as government officials, suppliers, and customers, are more likely to succeed in these markets. Especially the relationship between businesses and governments in EMs is notably different from that in developed economies, with many successful firms maintaining close ties with governments, which often act as shareholders, creditors, or strategic partners (Musacchio & Lazzarini, 2014). This phenomenon, known as "state capitalism," has given rise to organizational forms such as state-owned enterprises (SOEs) and hybrid organizations that combine state and private ownership. These relationships provide both advantages and challenges. While government support can offer access to resources and protection from competition, it can also lead to political interference and inefficiencies. Understanding how to navigate these complex relationships is crucial for domestic and foreign firms operating in EMs.

EMS AND THEIR FIRMS

EM firms also exhibit unique characteristics. For instance, EM firms display a significant focus on innovation and entrepreneurship, developing distinctive approaches to resource orchestration and innovation (Li & Atuahene-Gima, 2001). Although these firms often operate under significant resource constraints, they display notable ingenuity in developing cost-effective and innovative business models, giving rise to the term "frugal innovation" or "jugaad innovation" (Radjou, Prabhu, & Ahuja, 2012). These innovations cater to domestic markets and increasingly find applications in other parts of the world, demonstrating that necessity is indeed the mother of invention.

To IB scholars, the internationalization patterns of EM firms represent another unique aspect. Traditional internationalization theories, such as the Uppsala or OLI models, fail to fully explain the rapid and often unconventional international expansion of EM firms. Research suggests that EM firms frequently adopt unique internationalization strategies that differ from those of developed market firms (Cuervo-Cazurra & Genc, 2008), such as, for instance, by leveraging their networks and relationships to facilitate international expansion (Guillén & García-Canal, 2009) or "springing" internationally, i.e., making aggressive international investments to acquire strategic assets and overcome their latecomer disadvantages (Luo & Tung, 2007). In addition, EM firms may focus on niche markets or regions, such as other emerging markets, where they can capitalize on their expertise and advantages (Ramamurti & Singh, 2009).

EM firms stand out due to their capacity for innovation, adaptability, and strategic resilience in the face of unique economic, institutional, and socio-cultural environmental attributes. Just as globalization offers opportunities, it creates unique challenges for EM multinational firms (or EMNEs), bringing nuances to their capability development, particularly production capabilities (Awate, Larsen, & Mudambi, 2012). Their asset-seeking focus also creates situations where stakeholder management strategies for their suppliers, customers, partners, and even their subsidiaries, depart from established frameworks of developed economy MNEs (Awate, Larsen, & Mudambi, 2015; Luo & Child, 2015). To deal with these challenges, EMNEs adopt strategies that blend local insights with international best practices and upgrade their competitive positioning (Luo & Bu, 2018). As the global economy continues to evolve and intersect with technological advancements and shifting socio-political landscapes, the significance of EMs and their firms will likely grow further, underscoring the importance of continued academic and practical focus on them.

THE SPECIAL ISSUE

This special issue aimed to invoke scholarly discourse about the uniqueness of EMs and their firms by engaging in the burning debates on whether EMs need new theories and frameworks or represent an early lifecycle stage of mature markets. The special issue call received significant interest from the scholarly community, attracting 17 submissions covering a variety of research questions, contexts, and methods. After thorough rounds of reviews, we selected seven articles that deliver original insight and actionable guidance to IB practitioners, policymakers and academics engaging with EMs and their firms. These articles are written by scholars from both emerging (India, Malaysia, and Mexico) and developed (Australia, UK, and USA) markets. The rapidly evolving global landscape has elevated EMs' strategic significance as traditional economic powers face mounting challenges, thus making the lessons from the featured articles remarkably timely, delivering vital, strategic guidance amid rapid global shifts and evolving business dynamics.

In the first two articles, Ricardo E. Buitrago (Tecnológico de Monterrey, Mexico) and Khaled Shukran (Sunway University, Malaysia) challenge and rethink the existing frameworks for understanding EMs (Buitrago) and their firms (Shukran). In “Redefining Emerging Economies: The REE Framework for Nuanced Understanding and Engagement,” Buitrago introduces the REE (Redefine, Embed, Elevate) framework, which integrates the Productive Capacities Index and the KOF Globalization Index to provide a more nuanced understanding of 47 emerging and frontier economies, identifying four distinct groups - Steady Risers, Robust Accelerators, Talent-Rich Challengers, and Resource Rollercoasters - that challenge traditional categorizations. This multidimensional approach offers valuable insights for business practitioners, policymakers, and scholars in understanding and engaging with emerging markets.

In the second article, “Rethinking Theoretical Frameworks for Understanding Emerging Market Multinational Enterprises (EMNEs): Implications for Management and Policy,” Shukran argues that traditional international business theories are inadequate for understanding the strategies and behaviors of EMNEs, which have unique characteristics compared to MNEs from developed markets, leading thus to a need to update or modify the current theoretical frameworks better to capture the complex characteristics and strategies of EMNEs as they expand globally. As EMNEs are influenced by factors at the macro, industry, and firm levels, the article then proposes a multi-level approach, incorporating various theoretical perspectives, as critical for understanding EMNE strategies and behaviors.

The next two articles by Liou (University of Tampa, USA), and Upadhyayula and Thomas (Indian Institute of Management Kozhikode, India) focus on corporate governance strategies and implications for EM firms engaging in foreign direct investment. In the article “Overcoming Liabilities of Foreignness: Managing Emerging Market Multinational Companies’ Socio-Political Engagement in the Developed Markets,” Liou poses that emerging market multinationals face unique challenges when competing in developed markets, particularly the liability of foreignness linked to their home countries. Countering it, these firms can rely on non-market strategies such as corporate social responsibility and corporate political activity to navigate the complex sociopolitical landscapes of developed markets. Drawing on the Stereotype Content Model, the author proposes a configurational approach for EMNEs to manage their engagement with socio-political issues in developed markets and provides actionable insights for international business researchers and practitioners.

The next article, “Corporate Governance Implications on EMNEs OFDI – Insights for Owners/Managers,” by Upadhyayula and Thomas, discusses the corporate governance implications of foreign direct investment by EM multinationals, highlighting the unique challenges and solutions for owners and managers in these firms. The authors acknowledge that concentrated ownership structures like family firms, business groups, and state-owned enterprises create unique corporate governance challenges that hinder

foreign direct investment. They stipulate that the presence of non-controlling shareholders, such as foreign and domestic institutional investors, can help mitigate this negative impact of concentrated ownership. Beyond ownership structure, top management characteristics, such as CEO duality and board composition, also play a crucial role in facilitating or hindering foreign direct investment decisions in emerging market multinationals.

A country focus is provided by the last three articles by Sun (University of Massachusetts Lowell, USA) and Zhou (Sacred Heart University, USA), Xia, Huang, and Li (RMIT University, Australia), and Côté and Hu (London School of Economics, UK). All three of these articles focus on strategies employed by Chinese multinationals. In “Global Value Chain Envelopment: How Do Emerging Multinational Enterprises Innovate and Compete in Green Transitions?” Sun and Zhou introduce the concept of global value chain (GVC) envelopment to explain how Chinese multinationals strategically integrate into GVCs dominated by developed market multinationals, and form cooperative relationships with key suppliers and partners to create synergies, achieve economies of scale, and challenge traditional global players, particularly in the context of the global green transition. Through GVC envelopment, the Chinese multinationals can then leverage the existing resources and relationships within the GVC to gain an advantage over incumbent developed market multinationals, allowing them to offer better or cheaper products to global customers, while developed market multinationals may struggle to respond effectively.

In “The International Expansion of Chinese MNEs in Developed Markets: A Surfboard Perspective,” Xia, Huang and Li propose a new “surfboard perspective” to understand the motives and behaviours of Chinese multinationals’ international expansion in developed markets during the “post-springboard” phase. The surfboard perspective, which complements the extant “springboard perspective,” argues that Chinese multinationals use international expansion in developed markets as a “surfboard” to ascend GVCs, build reputable brands, and cultivate capabilities. The article also introduces the concept of “Western Shock” to encapsulate the challenges and negative experiences Chinese multinationals face as they expand into developed markets.

Finally, the last article of the issue, “Understanding the Uniqueness of Emerging Markets and Their Firms: Institutional Voids-Based Dynamic Capabilities in the Chinese Automotive Sector” by Côté and Hu, examines how institutional voids in China’s automotive industry have shaped the dynamic capabilities of firms in those markets, allowing them to gain competitive advantages over foreign competitors. Using the Chinese auto industry as the setting of their analysis, the authors demonstrate three key dynamic capabilities shaped by institutional voids: sensing capability (openness to change), seizing capability (China speed), and transforming capability (Juan culture).

The articles in this special issue collectively highlight the distinctive characteristics and challenges that define emerging market firms and their institutional environments. Through various theoretical lenses and approaches,

the contributors demonstrate that emerging markets cannot simply be viewed as earlier versions of developed markets but as unique contexts requiring specific theoretical frameworks and management approaches. Building upon the conclusions and insights from the articles in the issue, significant opportunities exist to explore further the unique and essential role of emerging markets for international business in the current global landscape. These opportunities include examining how digital transformation is uniquely shaped by emerging market conditions and institutional constraints, investigating the evolution of business groups as institutional environments mature, understanding how emerging market firms develop capabilities to compete globally while maintaining local advantages, and analyzing how sustainability challenges and considerations manifest differently in emerging market contexts. Although the list of countries that qualify as emerging markets may undergo revisions, the process of market emergence and its relevant nuances are here to stay. Together, the articles offer pathways for advancing academic discourse on emerging markets while offering actionable insights for practitioners dealing with these markets.

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Snehal Awate is an Associate Professor of Strategy at the Indian Institute of Technology Bombay. Her research is at the intersection of strategic management and international business, with a particular focus on competing in emerging markets as well as multinationals from emerging markets. Her research has appeared in several top-ranked journals such as *Journal of International Business Studies*, *Strategic Management Journal*, *Global Strategy Journal*, *Journal of Economic Geography*, *Journal of International Management*, and *California Management Review*.

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